



COMPTROLLER
(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MEMORANDUM FOR DEPUTY ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL OPERATIONS)

SUBJECT: Approval of Capitalization Procedures for the Army Single Stock Fund (SSF)
Effort under Milestone 3

This responds to your request for approval of proposed capitalization procedures under Milestone 3 of the implementation of the single stock fund. The delay in our response was to obtain more information about milestone 3 plans. There are still several options being discussed and final plans have not been agreed to within the Army. However, it appears that they may only indirectly impact the issue you have surfaced. The staffs of the Revolving Funds and Accounting Policy Directorates in OUSD(C) have reviewed your proposal, which requests an exclusion to the Financial Management Regulation (FMR) that we believe may not be necessary.

Current FMR policy and procedures will result in the capitalization of the Authorized Stockage List (ASL) and related "on order" items into the Army working capital fund. In turn the Army working capital fund will sell these items to customers. Since the ASL is currently funded with Army Operation and Maintenance, you indicate this might result in capitalization of both the orders for the ASL (replenishment), and for the orders funded by customers that could not be filled from the ASL (backorders). This would result in customer paying for the same items twice since both the backorders (already funded) and the subsequent sales (not yet funded) would have to be financed. You propose to exclude the customer backorders from the single stock fund.

The FMR addresses the capitalization of "on hand and on order inventories." Since the material in question has been purchased by customers, we believe it does not have to be included in the "on order inventories." Therefore, your proposal to exclude these customer backorders is approved. When milestone 3 takes place and the inventories are capitalized, all subsequent customer orders should be placed with the single stock fund. The single stock fund will then finance both the items necessary for the replenishment of the inventory and the items backordered for customers.

De Ritchie
Director for Accounting Policy

John M. Evans
Director for Revolving Funds